RY105-11 A
1/20/89

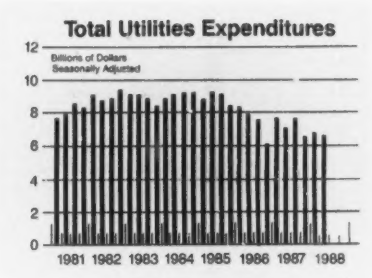
The Conference Board

Economic Analysis Program

# Utility Investment Report

Volume 2, Number 1 Fall 1988

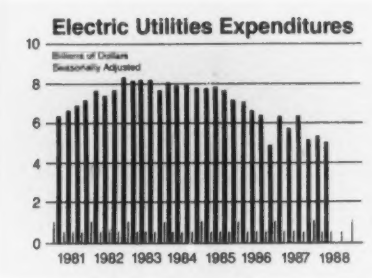
## OVERVIEW:




Sizable increases in new capital appropriations (approval of new plant and equipment spending plans) in the fourth quarter of 1987 and the first quarter of 1988 seemed to indicate that the nation's investor-owned utilities were about to step up capital investment. Appropriations plunged in the second quarter 1988 survey, however, suggesting that increases in capital spending are unlikely to develop very soon. Overall, it is difficult to predict at this juncture whether utility investment is going to accelerate or decelerate.

Part of the problem is that it is unclear whether demand is rising. For example, the North American Electric Reliability Council forecast a mild 1.5% rise in summer peak demand for 1987, but the actual increase was closer to 4 percent. That underestimation could persuade the electric utilities that such forecasts are typically conservative. Nevertheless, the Council is forecasting a meager 1.9% annual rise over the next decade, which is not likely to encourage a spending spree to expand productive capacity.

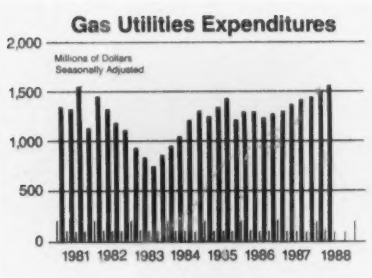
## APPROPRIATIONS UP MARKEDLY




The swing in new appropriations has been far more dramatic than in expenditures. Total new appropriations shot up to $6.3 billion in the fourth quarter of 1987, further increased to $8.1 billion in the first quarter of 1988, and then suddenly plummeted to $4.4 billion in the second quarter. The pattern was the same for both electric and gas utilities.

Sharp declines in the approval of new spending projects combined with flat expenditures, resulted in lower closing backlogs of approved but as yet unspent capital appropriations. Here the trend was more pronounced among the gas utilities. In fact, despite the run up in new appropriations by gas utilities, the backlog of unspent appropriations was not much higher in the first quarter of 1988 than in the third quarter of 1987 ($2.7 billion versus $2.4 billion). The backlog then dropped sharply to $1.3 billion in the second quarter of 1988, largely the result of the severe drop in new appropriations.

The closing backlog of unspent appropriations by electric utilities was also marginally higher in the first quarter of 1988 than in the third quarter of 1987 ($36.4 billion versus $35.9 billion). But the backlog only declined to $35.2 billion in the second quarter of 1988.




## OUTLOOK * WHETHER APPROPRIATIONS CONTINUE TO SLUMP OR RECOVER, RISING CAPITAL INVESTMENT IS UNLIKELY TO DEVELOP QUICKLY.

Capital investment by utilities has been weak for a long time, more so for electric utilities than for gas.

For much of the past three years, the data suggested that electric utilities have been slow to schedule new projects to replace those reaching completion. As a result, the "work order" of existing projects plus planned projects has gradually shrunk, perhaps to below-adequate levels. Increases in new appropriations in the last quarter of 1987 and in the first quarter of 1988 were seen as possible steps toward increasing productive capacity. But the latest Board survey results provide evidence to the contrary.

Ken Goldstein
November 16, 1988

Copyright © 1988 by The Conference Board, Inc.

UTILITY INVESTMENT REPORT (ISSN 0896-2510) is published quarterly by The Conference Board, Inc., 845 Third Avenue, New York, N.Y. 10022. Printed in New York, N.Y. Second-class postage paid at New York, N.Y. POSTMASTER: Send address changes to The Conference Board, 845 Third Avenue, New York, N.Y. 10022.

# CAPITAL APPROPRIATIONS AND EXPENDITURES OF INVESTOR-OWNED GAS AND ELECTRIC UTILITIES

| | Quarterly Totals in Millions of Dollars | | | | | Percent Change From Preceding Period (*Percent Change Over Year-ago Level) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | II-87 | III-87 | IV-87 | I-88 | II-88 | III-87 | IV-87 | I-88 | II-88 | II-88* |
| **—SEASONALLY ADJUSTED—** | | | | | | | | | | |
| **TOTAL UTILITIES** | | | | | | | | | | |
| Opening Backlog | 42,764 | 41,152 | 38,317 | 37,888 | 39,121 | | | | | |
| Appropriations | 5,605 | 5,174 | 6,286 | 8,083 | 4,440 | - 7.7% | 21.5% | 28.6% | -45.1% | -20.8% |
| Cancelations | 145 | 239 | 125 | - 7 | 447 | | | | | |
| Capital Expenditures | 7,072 | 7,770 | 6,590 | 6,857 | 6,620 | 9.9 | -15.2 | 4.1 | - 3.5 | - 6.4 |
| Closing Backlog | 41,152 | 38,317 | 37,888 | 39,121 | 36,494 | - 6.9 | - 1.1 | 3.3 | - 6.7 | -11.3 |
| **ELECTRIC UTILITIES** | | | | | | | | | | |
| Opening Backlog | 39,795 | 38,362 | 35,906 | 35,377 | 36,448 | | | | | |
| Appropriations | 4,275 | 3,904 | 4,623 | 6,426 | 3,822 | - 8.7 | 18.4 | 39.0 | -40.5 | -10.6 |
| Cancelations | - 1 | 0 | 1 | 1 | 0 | | | | | |
| Capital Expenditures | 5,709 | 6,360 | 5,151 | 5,354 | 5,050 | 11.4 | -19.0 | 3.9 | - 5.7 | -11.5 |
| Closing Backlog | 38,362 | 35,906 | 35,377 | 36,448 | 35,220 | - 6.4 | - 1.5 | 3.0 | - 3.4 | - 8.2 |
| **GAS UTILITIES** | | | | | | | | | | |
| Opening Backlog | 2,969 | 2,790 | 2,411 | 2,511 | 2,673 | | | | | |
| Appropriations | 1,330 | 1,270 | 1,663 | 1,657 | 618 | - 4.5 | 30.9 | - 0.4 | -62.7 | -53.5 |
| Cancelations | 146 | 239 | 124 | - 8 | 447 | | | | | |
| Capital Expenditures | 1,363 | 1,410 | 1,439 | 1,503 | 1,570 | 3.4 | 2.1 | 4.4 | 4.5 | 15.2 |
| Closing Backlog | 2,790 | 2,411 | 2,511 | 2,673 | 1,274 | -13.6 | 4.1 | 6.5 | -52.3 | -54.3 |
| **—NOT SEASONALLY ADJUSTED—** | | | | | | | | | | |
| **TOTAL UTILITIES** | | | | | | | | | | |
| Opening Backlog | 50,536 | 44,957 | 39,201 | 37,522 | 45,725 | | | | | |
| Appropriations | 2,641 | 2,708 | 6,907 | 15,174 | 2,174 | 2.5 | 155.1 | 119.7 | -85.7 | -17.7 |
| Cancelations | 974 | 351 | 1,500 | 1,118 | 567 | | | | | |
| Capital Expenditures | 7,246 | 8,113 | 7,086 | 5,853 | 6,750 | 12.0 | -12.7 | -17.4 | 15.3 | - 6.8 |
| Closing Backlog | 44,957 | 39,201 | 37,522 | 45,725 | 40,582 | -12.8 | - 4.3 | 21.9 | -11.2 | - 9.7 |
| **ELECTRIC UTILITIES** | | | | | | | | | | |
| Opening Backlog | 45,230 | 40,575 | 36,118 | 34,739 | 40,238 | | | | | |
| Appropriations | 2,206 | 2,186 | 5,354 | 11,317 | 1,972 | - 0.9 | 144.9 | 111.4 | -82.6 | -10.6 |
| Cancelations | 889 | 111 | 1,427 | 1,026 | 181 | | | | | |
| Capital Expenditures | 5,972 | 6,532 | 5,306 | 4,792 | 5,282 | 9.4 | -18.8 | - 9.7 | 10.2 | -11.6 |
| Closing Backlog | 40,575 | 36,118 | 34,739 | 40,238 | 36,747 | -11.0 | - 3.8 | 15.8 | - 8.7 | - 9.4 |
| **GAS UTILITIES** | | | | | | | | | | |
| Opening Backlog | 5,306 | 4,382 | 3,083 | 2,783 | 5,487 | | | | | |
| Appropriations | 435 | 522 | 1,553 | 3,857 | 202 | 20.0 | 197.5 | 148.4 | -94.8 | -53.6 |
| Cancelations | 85 | 240 | 73 | 92 | 386 | | | | | |
| Capital Expenditures | 1,274 | 1,581 | 1,780 | 1,061 | 1,468 | 24.1 | 12.6 | -40.4 | 38.4 | 15.2 |
| Closing Backlog | 4,382 | 3,083 | 2,783 | 5,487 | 3,835 | -29.6 | - 9.7 | 97.2 | -30.1 | -12.5 |

REVISIONS: 1985-86 seasonally adjusted data for gas, electric and total utilities have been revised. Revised 1985 data is available upon request.

p denotes preliminary data.

Estimates are for all investor-owned gas and electric utilities. The electric utility companies surveyed account for 98% of all investor-owned companies' plant investment and kilowatt-hour sales to ultimate customers in 1984; the gas utilities surveyed account for 50% of 1984 revenues of all investor-owned gas utilities.

Historical data from 1958 available on request.

Sources: Edison Electric Institute; American Gas Association; The Conference Board.

**The Conference Board**

845 Third Avenue, New York, N.Y. 10022 / (212) 759-0900
1755 Massachusetts Avenue, N.W., Suite 312, Washington, D.C. 20036
255 Smyth Road, Ottawa, Ontario, K1H-8M7, Canada
Avenue Louise, 207-Bte 5; B-1050 Brussels, Belgium

CBDB

**ATTENTION DATA USERS: All data in this publication are available ONLINE in our statistical database, CBDB. For more information contact Linette Waters at (212) 759-0900.**

Prepared by Ken Goldstein, Economic Analysis Program, Eric J. Kruger, Director.
Reproduction permissible with full citation to The Conference Board as source.
Published quarterly at 845 Third Avenue, New York, New York 10022.